people are no different from the Americans or Europeans of today; it is all a matter of education or lack of education.'

The foundational role of education and other ways of expanding human capability form a solid connection in development thinking, and are also central themes of this book. This does not, of course, undermine the need for proper institutional structures for an economy. However, as Glaeser, La Porta, Lopez-de-Silanes and Shleifer have argued in their sceptical paper, 'Do Institutions Cause Growth?', the development of human capital may be a more worthwhile pursuit no matter what its instrumental basis is – than the setting up of some pre-specified list of 'necessary' institutions.[34] Recognition of the crucial role of institutions has to be distinguished from any formulaic adherence to important institutions identified by historical studies as a blueprint for the future. Intelligent and informed policy analysis has to be responsive to the general need for good institutions, appropriate to particular circumstances, while bearing in mind the foundational connections between economic growth and the expansion of education and human capital.

While the importance of institutions can hardly be denied, the exercise of institutional reform cannot be reduced to fulfilling the demand of a 'checklist' of 'needed' institutions. As Trebilcock and Prado judiciously remark after an extensive review of the empirical literature: 'In sum, while much empirical evidence supports the view that institutions matter for development, we know very little about which institutions matter, and what specific institutional characteristics within classes of institutions matter for development.'[35] We shall not proceed with a checklist, but that is not an invitation to ignore what can be broadly called 'the institutional perspective'. Rather, the broadness of connections brought out by empirical work shows the need to assess and scrutinize specific institutional needs in particular circumstances. We shall have more to say on the importance of different kinds of institutions for India as this book proceeds. We have to consider both (1) institutions that are important for growth and development seen together (as in the literature just reviewed), and (2) the specific institutional needs of translating the achievements in growth into the broader perspective of development and flourishing of human beings. The institutional needs of fast economic growth

have to be supplemented by specific instruments and organizations for enhancing the living standards of people.

MUTUAL SUPPORT OF GROWTH AND DEVELOPMENT

The impact of economic growth on the lives of people is partly a matter of income distribution, but it also depends greatly on the use that is made of the public revenue generated by economic expansion. The fact, for example, that China devotes 2.7 per cent of its GDP to government expenditure on health care, compared with India's relatively miserable 1.2 per cent, is directly relevant to the much greater health achievements of China compared with India, including, for instance, its much higher life expectancy (about eight years higher than India's).

One result of the relatively low allocation to public health care in India is the development of a remarkable reliance of many poor people across the country on private doctors, many of whom have little, if any, medical training. Since health is also a typical case of 'asymmetric information', when – in particular – the patients may know very little about what the ailments are and what medicine is being given and why, the possibility of defrauding the families of patients is very large, in the absence of alternative public health care to which the patients can go for assistance and advice.* We shall return to the problems of health and health care in India in Chapter 6.

India has moved towards reliance on private health care without developing the solid rock of support of basic public health facilities that has been the basis of almost every successful health transition in the history of the world – from Britain to Japan, from China to Brazil, from South Korea to Costa Rica. Even within India, there is some experience, particularly in Kerala in the south-west, of a major expansion of public health services being accomplished before any large-scale surge

* Many empirical studies have revealed cases of severe exploitation of poor patients' ignorance of what they are being given to make them part with badly needed money to receive treatment that they do not end up getting. See e.g. Pratichi Trust (2005) and Das et al. (2012).

of private medical care. The effectiveness of the public route is sometimes missed by the advocates of reliance on private health care who point to the plentiful presence of the private sector in medicine in Kerala today. Kerala's health transition initially proceeded on the solid foundations of universal coverage provided by the state, and only later on, the use of private health care developed fast, particularly for the newly rich people: Kerala experienced a rapid increase in incomes – not unrelated to the development of human capabilities (on which more in the next chapter) – which ultimately supported private health care. There is, in fact, a world of difference between (1) allowing – and even encouraging – the auxiliary facilities of private health care to enrich a reasonably well-functioning state system (as happened in Kerala), and (2) trying to rely on private health care when the state provides very little in terms of health facilities (as in many other states, particularly in north India). There is also a word of caution in the professional economic literature on asymmetric information about trying to make up the gap by subsidizing private health care or private health insurance, since the problem of profit-seeking market transactions with very unequal knowledge of medical conditions is not a matter only of economic poverty.* A similar set of problems arise with Indian educational planning, particularly involving school education (as will be discussed in Chapter 5).

The central point to appreciate here, as has already been emphasized, is that while economic growth is an important tool for enhancing living conditions, its reach and impact depend greatly on what is done with the fruits of growth. The relation between economic growth and the advancement of living standards depends on many factors, including economic and social inequality in general, and no less importantly, on what the government does with the public revenue that is generated by economic growth. The importance of economic growth can be adequately understood only in this broader context. It is necessary to recognize the role of growth in facilitating development in the form

* Two classic papers in economic theory which establish the limitations of private provision of education and health care, because of the 'public goods' characteristic of these provisions and because of asymmetric information in the market economy, are Paul Samuelson (1954) and Kenneth Arrow (1963).

of enhancing human lives and freedoms, but it is also necessary in this context to appreciate how the growth possibilities of a country depend in turn on the advancement of human capabilities (through education, health care and other facilities), in which the state can play a very constructive part.[36]

When India began undertaking a sustained programme of economic reform in the early 1990s, the country faced two gigantic failures of economic governance. The first was a failure to tap the *constructive role of the market*, particularly in terms of fostering initiative, promoting efficiency, and coordinating complex economic operations. The so-called 'licence Raj' – making it necessary to have governmental permission for private initiatives – made economic enterprise extremely difficult and put it at the mercy of bureaucrats (large and small), thereby powerfully stifling initiative while nurturing corruption considerably. This particular failure has been partially remedied in the post-reform period – the removal of arbitrary controls and greater openness to international trade has helped India to achieve a solid basis for high rates of economic growth. There is more to be done, both in simplifying or removing counterproductive *regulations* (since arbitrary restrictions and bureaucratic power continue to constrain Indian economic expansion) and in ensuring that *regulation* (an essential aspect of any modern economy) is well-aimed, effective, transparent, and not easily amenable to corruption.

However, there was also an urgent need to address another failure – a resounding failure to harness the *constructive role of the state* for growth and development. While there was plenty of government intervention in the pre-reform period, it was mainly of a negative or restrictive kind, neglecting, at the same time, huge fields of activity where constructive public action could have achieved a great deal. There has been a sluggish response to the urgency of remedying India's astonishingly underdeveloped social infrastructure and of building a functioning system of accountability and collaboration for public services. To this can be added the neglect of physical infrastructure (power, water, roads, rails), which required both governmental and private initiatives. Large areas of what economists call 'public goods' have continued to be neglected.

The radical changes in the 1990s did little to remedy the second of

these failures. If things have begun to change here too (though rather slowly), part of the credit for ushering in that change must go to India's democratic politics. There is a growing recognition of the electoral relevance of unfulfilled basic needs of people (related to schools, health care, water supply and accountable administration), and various social movements as well as sections of the media have also been able to bring greater attention to elementary human rights as well as freedom from corruption.

So where does India stand now after all this? The economic growth rate is, of course, agreeably high (even at its current lower level, after having hovered above 8 per cent for five out of six years from 2005–6 onwards), but the sharing of its benefits is still remarkably unequal. Poverty rates have come down, but not close to what could have been achieved had the distributional side (including the provision of essential services) got more attention. Some failures are huge, like widespread undernourishment in general and child undernutrition in particular – India is among the world's worst performers in this respect (even compared with many countries that are considerably poorer in terms of real GDP per head). Another big failure remains the provision of public health care to the bulk of the population. And there is also the continuing scandal of a quarter of the population (including nearly half the women) remaining effectively illiterate in a country with such high-tech achievements in education based on excellent specialized training and practice. A democratic country can hardly want to become part California and part sub-Saharan Africa.

Looking ahead, two major problems facing the Indian economy can be summed up as follows: (1) removing the sharp disparities that divide the country into the privileged and the rest, while continuing to encourage overall economic growth and expansion, and (2) bringing more accountability to the running of the economy, particularly in the delivery of public services and the operation of the public sector. In the next chapter we discuss in comparative terms the huge penalties of large disparities in stifling India's economic and social progress, and in Chapter 4 we address some institutional problems that have been constraining and restraining social and economic change in India, including the problem of accountability, and in that context, the seemingly ubiquitous prevalence of corruption. Both these are

crucial parts of the unfinished agenda of growth and development in India today.

SUSTAINABLE DEVELOPMENT

One other issue that must be part of the concern of Indian economic development is that of making the process sustainable. Sustainability is not a new subject. The security of human lives has always to some degree been understood to depend on the strength and resilience of the natural world we inhabit. However, the so-called 'human predicament', including our mortality and our fragility, has typically been understood as the plight of the individual, a condition frequently contrasted with the strength and durability of humanity as a collective entity; indeed, throughout history people have tended to take for granted the robustness of nature, and a secure place for us in it. The frailty of individual lives (including their ultimate cessation) has typically been seen as an individual predicament that did not apply to mankind in general. In recent decades, all over the world, these perceptions have dramatically changed, and indeed it is hard to think of a subject that generates as much concern today among reflective people everywhere as the serious vulnerability of the environment in which we live. People are deeply worried about how human lives can continue to prosper, even perhaps continue at all in the form that we know them, if the depletion of our environment continues as fast as it is right now.

In India, we have huge reasons to be worried about our treatment of the environment and its implications for the lives people can lead in this increasingly polluted and environmentally devastated country. Indeed, the acceleration of economic growth in recent decades has coincided with unprecedented environmental plunder. Groundwater has been extracted with abandon, leading to a sharp fall in water tables in many areas. Majestic rivers have been reduced to a trickle, or to sewage drains. Mining activities (often illegal) have spread with few safeguards, destroying forests and displacing communities. Air pollution has risen so far that India is now rated as the most polluted among 132 countries for which comparable data are available.[37]

India's 'natural wealth' is estimated to have shrunk by about 6 per cent in value terms (more than 30 per cent on a per capita basis) between 1990 and 2008.[38] And all this might be no more than just a harbinger of things to come: many types of environmental damage are likely to accelerate in the near future, with, for instance, hundreds of dams being planned on the Ganges river and its tributaries alone.[39]

The basic challenge of environmental sustainability has been sidelined in the single-minded concentration on the current growth rate of the GDP, which seems to get the lion's share of attention in the media and even in policy discussions about how India should pursue growth and development. And this lack of attention to the environment seems to have grown sharply in recent years. As Ramachandra Guha notes:

> After economic liberalization . . . environmental safeguards have been systematically dismantled. The ministry of environment and forests has cleared destructive projects with abandon. Penalties on errant industries are virtually never enforced. Although by law every new project has to have an Environmental Impact Assessment (EIA), these, as the then environment minister Jairam Ramesh candidly admitted in March 2011, are a 'bit of a joke', since 'under the system we have today, the person who is putting up the project prepares the report'.[40]

This devastation is often seen as a symptom of the conflict between 'environment' and 'development'. But this interpretation is thoroughly misleading. If development is about enhancing human freedoms and the quality of life – an important understanding for which we have argued – then the quality of the environment is bound to be part of what we want to preserve and promote. In fact, this broader view of development can help not only to integrate development and environmental concerns but also to achieve a better understanding of our environmental challenges, in terms of the quality and freedom of human lives – today and in the future.[41]

It is important to understand that caring about the environment need not undermine the commitment to development and the removal of poverty and deprivation. In the broader perspective of seeing devel-

opment in terms of promoting substantive human freedom, fighting poverty and being responsible about the environment cannot but be closely linked. Development is not merely the enhancement of inanimate objects of convenience, such as a rise in the GDP (or in personal incomes); nor is it some general transformation of the world around us, such as industrialization, or technological advance, or social modernization. Development is, ultimately, the progress of human freedom and capability to lead the kind of lives that people have reason to value.

If we are ready to recognize the need for seeing the world in this broader perspective, it becomes immediately clear that development cannot be divorced from ecological and environmental concerns. For example, since we value the freedom to lead a pollution-free life, the preservation of a pollution-free atmosphere must be an important part of the objectives of development. Especially for poorer people, who tend to spend a much higher proportion of their daily lives in the open – sometimes even sleeping on the streets – the quality of air is a critically important influence on the level of deprivation of their lives. Similarly, if substantial parts of India – not to mention the Maldives or large sections of Bangladesh – were to be submerged by a rising ocean (as seems very possible if global warming continues further), the people who would suffer most would be the poorer people in the affected regions, with very little access to alternative opportunities of a viable economic and social living. Indeed, as Nicholas Stern has argued, the risks of climate change may affect the lives of people across the world in very diverse ways, making the exacerbation of inequity one of the primary concerns about the consequences of unchecked climatic developments.[42]

If development is about the expansion of freedom, it has to embrace the removal of poverty as well as paying attention to ecology as integral parts of a unified concern, aimed ultimately at the security and advancement of human freedom. Indeed, important components of human freedoms – and crucial ingredients of our quality of life – are thoroughly dependent on the integrity of the environment, involving the air we breathe, the water we drink, and the epidemiological surroundings in which we live. The opportunity to live the kind of lives

that people value – and have reason to value – depends among other things on the nature and robustness of the environment. In this sense, development has to be environment-inclusive, and the belief that development and environment are on a collision course cannot sit comfortably with the recognition of the manifest interdependence and complementarity between the two.